



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0116	Title:	Revise resource indemnity trust funding laws
Primary Sponsor:	Ripley, Rick	Status:	Third Reading -- Senate

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$1,000,000	\$1,000,000	\$0	\$0
State Special Revenue	\$3,410,000	(\$240,000)	(\$240,000)	(\$240,000)
Revenue:				
General Fund	\$11,220	\$11,227	\$10,105	\$9,853
State Special Revenue	\$4,638,780	\$988,773	(\$10,105)	(\$9,853)
Net Impact-General Fund Balance:	<u>(\$988,780)</u>	<u>(\$988,773)</u>	<u>\$10,105</u>	<u>\$9,853</u>

Description of Fiscal Impact:

The proposed law amends sections of code that refer to allocation of the oil and natural gas production tax, the metal mines license tax, the resource indemnity and groundwater assessment tax (RIGWAT), and resource indemnity trust (RIT) interest. The proposed law also eliminates the reclamation and development grants account and the renewable resource grant and loan account in the state special revenue fund, and creates the natural resources projects account and the natural resources operations account in the state special revenue fund. A small portion of the oil and natural gas production tax will be redirected from the state special revenue fund to the general fund each year in FY 2008 through FY 2011. The proposed law also requires transfer of \$1,000,000 from the general fund to the environmental contingency state special revenue account each year in FY 2008 and FY 2009.

FISCAL ANALYSIS

Assumptions:

1. The effective date of the bill is July 1, 2007.

Oil and Natural Gas Production Tax

2. Under current law, oil and natural gas production tax revenue is distributed in first order to the Board of Oil and Gas Conservation (BOGC), the oil, gas, and coal natural resource account, and the producing counties (initial allocations). The remaining revenue (state share) is distributed into the coal bed methane account (1.23%), the reclamation and development grants account (2.95%), the orphan share account (2.95%), and the university six mill account (2.65%). Any revenue remaining after distribution to these state special revenue accounts is deposited into the general fund.
3. Under the proposed law, the allocations to BOGC, the oil gas, and coal natural resource account, the oil and gas producing counties, the coal bed methane account, and the university six mill account do not change. The allocation to the reclamation and development grants is terminated. The allocation to the orphan share account increases to 2.99% of the state share. In addition, two new allocations are made from the state share of revenue. These allocations are made to the natural resources projects account (1.45%), and the natural resources operations account (1.45%). The sum of these three allocations (2.99% + 1.45% + 1.45% = 5.89%) is slightly less than the current law allocations to the reclamation and development grants account and the orphan share account (2.95% + 2.95% = 5.90%). The table below illustrates the distribution of projected oil and natural gas production tax revenue from HJR 2 for FY 2008 through FY 2009 and OBPP for FY 2010 through FY 2011.

Distribution of Second Allocation Oil & Gas Production Tax Revenue Under Current and Proposed Law (\$ millions)								
Current Law								
Fiscal Year	General Fund	Coal Bed Methane Account	Reclamation & Development Grants Account	Orphan Share Account	Natural Resources Projects Account	Natural Resources Operations Account	University Six Mill Account	Total
F 2008	\$101.224	\$1.380	\$3.310	\$3.310	\$0.000	\$0.000	\$2.973	\$112.197
F 2009	\$101.288	\$1.381	\$3.312	\$3.312	\$0.000	\$0.000	\$2.975	\$112.268
F 2010	\$91.168	\$1.243	\$2.981	\$2.981	\$0.000	\$0.000	\$2.678	\$101.051
F 2011	\$88.894	\$1.212	\$2.907	\$2.907	\$0.000	\$0.000	\$2.611	\$98.531
Proposed Law								
Fiscal Year	General Fund	Coal Bed Methane Account	Reclamation & Development Grants Account	Orphan Share Account	Natural Resources Projects Account	Natural Resources Operations Account	University Six Mill Account	Total
F 2008	\$101.235	\$1.380	\$0.000	\$3.355	\$1.627	\$1.627	\$2.973	\$112.197
F 2009	\$101.299	\$1.381	\$0.000	\$3.357	\$1.628	\$1.628	\$2.975	\$112.268
F 2010	\$91.179	\$1.243	\$0.000	\$3.021	\$1.465	\$1.465	\$2.678	\$101.051
F 2011	\$88.904	\$1.212	\$0.000	\$2.946	\$1.429	\$1.429	\$2.611	\$98.531
Percentage Allocation								
Current %	90.22%	1.23%	2.95%	2.95%	0.00%	0.00%	2.65%	100.00%
Proposed %	90.23%	1.23%	0.00%	2.99%	1.45%	1.45%	2.65%	100.00%
Difference	0.01%	0.00%	(2.95%)	0.04%	1.45%	1.45%	0.00%	0.00%

Metal Mines License Tax

4. Under current law, seven percent of metal mines license tax revenue is allocated to the reclamation and development grants account. Under proposed law this allocation is redirected to the natural resources operations account.

Resource Indemnity and Ground Water Assessment Tax

5. Under current law, resource indemnity and groundwater assessment tax (RIGWAT) revenue is distributed into the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended in 1986 (CERCLA) match debt service fund, the groundwater assessment account, the reclamation and development grants account, and the orphan share account.
6. Under current law and HJR 2, RIGWAT revenue is forecast to be \$1.335 million in FY 2008 and \$1.290 million FY 2009. Estimates from OBPP for FY 2010 and FY 2011 are \$1.589 million and \$1.598 million. The allocation of the forecast revenue under current law is shown in the following table.

Current Law - Resource Indemnity Tax Allocation (\$ millions)					
Fiscal Year	CERCLA match debt service fund	Groundwater Assessment Account	Reclamation and Development Grants Account	Orphan Share Account	Total
F 2008	\$ 0.264	\$ 0.366	\$ 0.353	\$ 0.353	\$ 1.335
F 2009	0.273	0.366	0.325	0.325	1.290
F 2010	0.272	0.366	0.475	0.475	1.589
F 2011	0.270	0.366	0.481	0.481	1.598

7. Under proposed law the allocations to the CERCLA match debt service fund and the groundwater assessment account will not change. However, remaining revenue will be allocated to the water storage account, the environmental quality protection fund, the hazardous waste/CERCLA account, and the natural resources projects account. The following table illustrates these allocations.

HB116 - Resource Indemnity Tax Allocation (\$ millions)							
Fiscal Year	CERCLA match debt service fund	Groundwater Assessment Account	Water Storage Account	Environmental Quality Protection Fund	Hazardous Waste / CERCLA Account	Natural Resources Projects Account	Total
F 2008	\$ 0.264	\$ 0.366	\$ 0.150	\$ 0.139	\$ 0.139	\$ 0.278	\$ 1.335
F 2009	0.273	0.366		0.163	0.163	0.325	1.290
F 2010	0.272	0.366		0.238	0.238	0.475	1.589
F 2011	0.270	0.366		0.240	0.240	0.481	1.598

Resource Indemnity Trust Fund

8. The resource indemnity trust (RIT) has a balance of \$100 million dollars and no longer receives additional collections. Interest earnings from this trust are distributed to the accounts and programs in the following table. The table shows current law allocation of HJR 2 RIT interest income in FY 2008 and FY 2009 and OBPP projected RIT interest income in FY 2010 and FY 2011.

Current Law - Resource Indemnity Trust Interest Allocation (\$ millions)				
	FY2008	FY2009	FY2010	FY2011
Biennial Fixed Allocations				
Environmental Contingency Account	\$0.175	\$ -	\$0.175	\$ -
Oil & Gas Damage Mitigation Account	0.050	-	0.050	-
Water Storage	0.500	-	0.500	-
Annual Fixed Allocations				
MSU-Northern	0.240	0.240	0.240	0.240
Groundwater Assessment Account	0.300	0.300	0.300	0.300
Trout Habitat Enhancement Account	0.500	0.500	-	-
Annual Percentage Allocations				
Hazardous Waste/CERCLA Account	0.099	0.291	0.221	0.381
Environmental Quality Protection Fund	0.034	0.101	0.077	0.132
Annual Fixed & Percentage Allocations				
Renewable Resource Grant & Loan Account	2.114	2.335	2.255	2.439
Reclamation & Development Grants Account	1.633	1.891	1.798	2.012
Total RIT Interest Earnings	\$5.646	\$5.658	\$5.616	\$5.504

9. Under proposed law, allocations to MSU-Northern, the renewable resource grant and loan account, and the reclamation and development grants account are eliminated. New allocations are made to the natural resources projects account and the natural resources operations account. Allocations to the groundwater assessment account, the hazardous waste/CERCLA account, and the environmental quality protection fund increase under proposed law. The following table shows the projected allocations under proposed law.

HB 116 - Resource Indemnity Trust Interest Allocation (\$ millions)				
	FY2008	FY2009	FY2010	FY2011
Biennial Fixed Allocations				
Oil & Gas Damage Mitigation Account	\$0.050	\$ -	\$0.050	\$ -
Water Storage Account	0.500	-	0.500	-
Annual Fixed Allocations				
Groundwater Assessment Account	0.300	0.300	0.300	0.300
Natural Resources Projects Account	3.500	3.500	3.500	3.500
Trout Habitat Enhancement Account	0.500	0.500	0.500	0.500
Environmental Contingency Account	0.175	0.175	0.175	0.175
Annual Percentage Allocations				
Hazardous Waste/CERCLA Account	0.161	0.308	0.154	0.268
Environmental Quality Protection Fund	0.056	0.106	0.053	0.093
Natural Resources Operations Account	0.404	0.769	0.384	0.669
Total RIT Interest Earnings	\$5.646	\$5.658	\$5.616	\$5.504

10. The following table illustrates FY 2008 allocations to the state general fund and state special revenue accounts from projected oil and natural gas production taxes, metal mines license taxes, resource indemnity and groundwater assessment taxes, and resource indemnity trust interest earnings. For oil and natural gas production tax and metal mines license tax revenue, the table does not include allocations to accounts that are not affected by proposed law.

Revenue Allocation to Relevant State Special Revenue Accounts in FY 2008 Current Law vs. Proposed Law (\$ millions)					
Current Law FY 2008					
Revenue Source	Oil & Natural Gas Production Tax	Metal Mines License Tax	Resource Indemnity and Groundwater Assessment Tax	Resource Indemnity Trust Interest	Total
General Fund	\$ 101.224	\$ 9.613	\$ -	\$ -	\$ 110.837
Reclamation and Development Grants Account	3.310	1.181	0.353	1.633	6.476
Renewable Resource Grant & Loan Account	-	-	-	2.114	2.114
Natural Resources Projects Account	-	-	-	-	-
Natural Resources Operations Account	-	-	-	-	-
Orphan Share Account	3.310	-	0.353	-	3.662
CERCLA match debt service fund	-	-	0.264	-	0.264
Groundwater Assessment Account	-	-	0.366	0.300	0.666
Water Storage Account	-	-	-	0.500	0.500
Environmental Quality Protection Fund	-	-	-	0.034	0.034
Hazardous Waste/CERCLA Account	-	-	-	0.099	0.099
Environmental Contingency Account	-	-	-	0.175	0.175
Oil & Gas Damage Mitigation Account	-	-	-	0.050	0.050
MSU-Northern Account	-	-	-	0.240	0.240
Trout Habitat Enhancement Account	-	-	-	0.500	0.500
Total	\$ 107.844	\$ 10.794	\$ 1.335	\$ 5.646	\$ 125.618
Proposed Law FY 2008					
Revenue Source	Oil & Natural Gas Production Tax	Metal Mines License Tax	Resource Indemnity and Groundwater Assessment Tax	Resource Indemnity Trust Interest	Total
General Fund	\$ 101.235	\$ 9.613	\$ -	\$ -	\$ 110.848
Reclamation and Development Grants Account	-	-	-	-	-
Renewable Resource Grant & Loan Account	-	-	-	-	-
Natural Resources Projects Account	1.627	-	0.278	3.500	5.404
Natural Resources Operations Account	1.627	1.181	-	0.404	3.211
Orphan Share Account	3.355	-	-	-	3.355
CERCLA match debt service fund	-	-	0.264	-	0.264
Groundwater Assessment Account	-	-	0.366	0.300	0.666
Water Storage Account	-	-	0.150	0.500	0.650
Environmental Quality Protection Fund	-	-	0.139	0.056	0.195
Hazardous Waste/CERCLA Account	-	-	0.139	0.161	0.300
Environmental Contingency Account	-	-	-	0.175	0.175
Oil & Gas Damage Mitigation Account	-	-	-	0.050	0.050
MSU-Northern Account	-	-	-	-	-
Trout Habitat Enhancement Account	-	-	-	0.500	0.500
Total	\$ 107.844	\$ 10.794	\$ 1.335	\$ 5.646	\$ 125.618

11. Under current law, the state contributes monthly from the renewable resource grant and loan account to the judges' pension trust fund an amount equal to 25.81% of the compensation paid to the chief water court judge. Under proposed law, this payment will be made from the natural resources operations account.
12. Under HB 116 section 4, this bill repeals the \$240,000 statutory appropriation for MSU Northern.
13. Under HB 116 section 12, for the biennium beginning July 1, 2007 the department of Natural Resources and Conservation will transfer \$600,000 to the hazardous waste/CERCLA account, \$50,000 to the oil and gas production damage mitigation account, \$2 million to the environmental quality protection account, \$200,000 to the natural resources operations account, and \$800,000 to the natural resources projects account from the orphan share account.
14. Under HB 116 section 29, the department of Administration will transfer \$1,000,000 each year in FY 2008 and FY 2009 from the general fund to the environmental contingency account. At the beginning of fiscal year 2008, the department of Natural Resources and Conservation shall transfer the ending fund balance in the renewable resource grant and loan program account and the reclamation and development grants account to the natural resources operations account.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses (MSU Northern)	(\$240,000)	(\$240,000)	(\$240,000)	(\$240,000)
Transfer	\$4,650,000	\$1,000,000	\$0	\$0
TOTAL Expenditures	<u>\$4,410,000</u>	<u>\$760,000</u>	<u>(\$240,000)</u>	<u>(\$240,000)</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$1,000,000	\$1,000,000	\$0	\$0
State Special Revenue (02) (MSU Northern)	(\$240,000)	(\$240,000)	(\$240,000)	(\$240,000)
State Special Revenue (02) orphan share	\$3,650,000	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$4,410,000</u>	<u>\$760,000</u>	<u>(\$240,000)</u>	<u>(\$240,000)</u>
<u>Revenues:</u>				
General Fund (01)	\$11,220	\$11,227	\$10,105	\$9,853
State Special Revenue (02)	(\$11,220)	(\$11,227)	(\$10,105)	(\$9,853)
State Special Revenue (02) environmental contin;	\$1,000,000	\$1,000,000	\$0	\$0
State Special Revenue (02) haz waste/CERCLA	\$600,000	\$0	\$0	\$0
State Special Revenue (02) oil & gas prod damag	\$50,000	\$0	\$0	\$0
State Special Revenue (02) environmental quality protection	\$2,000,000	\$0	\$0	\$0
State Special Revenue (02) natural resources operations	\$200,000	\$0	\$0	\$0
State Special Revenue (02) natural resources projects	\$800,000	\$0	\$0	\$0
TOTAL Revenues	<u>\$4,650,000</u>	<u>\$1,000,000</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$988,780)	(\$988,773)	\$10,105	\$9,853
State Special Revenue (02)	\$1,228,780	\$1,228,773	\$229,895	\$230,147

Long-Range Impacts:

1. Under current and proposed law, beginning FY 2012 the allocation of oil and natural gas production tax revenue to the coal bed methane account is terminated. Under proposed law, the allocation to the natural resources projects account increases to 2.16% of the state share of oil and natural gas production tax revenue, and the allocation to the natural resources operations account increases to 2.02% of state share. The general fund allocation from this tax will revert back to 90.22% of the state share, which the general fund receives under current law. This allocation change is shown in the following table.

State Portion Oil and Gas Tax Revenue Allocation by Fund FY 2012			
Account	Current Law	HB 116	Difference
Coal Bed Methane Protection Account	0.00%	0.00%	0.00%
Reclamation and Development Grants Account	4.18%	0.00%	-4.18%
Orphan Share Account	2.95%	2.95%	0.00%
University System	2.65%	2.65%	0.00%
Resource Projects Account	0.00%	2.16%	2.16%
Resource Operations Account	0.00%	2.02%	2.02%
General Fund	90.22%	90.22%	0.00%
Total	100.00%	100.00%	0.00%

Sponsor's Initials

Date

Budget Director's Initials

Date